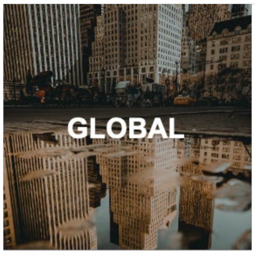
26 – 30 May 2025

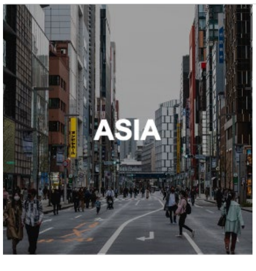
WEEKLY MARKET REVIEW

A brief on global markets and investment strategy

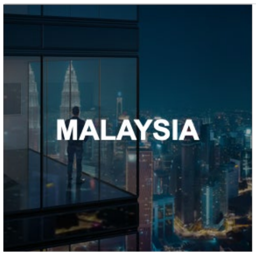
Key Highlights



- The S&P 500 rose 1.90%, shrugging off renewed US-China trade tensions. Truce strain deepened as both sides accused each other of backtracking on promises.
- Trump proposed doubling tariffs on steel and aluminium to 50%, but market reaction was muted.
- April PCE inflation rose 0.1%, bringing annual rate to 2.1%, slightly below expectations.
- Fed minutes showed caution on inflation; June/July rate cuts priced out, September cut still likely.



- MSCI Asia ex-Japan fell 1.10% on tariff jitters and lack of macro clarity.
- NVIDIA's earnings showed China weakness but non-China AI demand strengthening.
- South Korea's upcoming election may bring capital market reforms; focus on shareholder rights.
- Asian IG spreads tightened 2 bps; HY widened 4 bps.
- New World Development deferred coupons, hurting Hong Kong property bonds.



- The FBM KLCI declined 1.76% as earnings season disappointed.
- May results season saw 50–60% of companies in line, 20–30% below, and 10–20% above expectations.
- 2025 earnings growth forecast likely to be revised down to 3%–4%.
- Political developments suggest minor cabinet reshuffle, no shift in policy.
- RM10b subsidy savings from lower oil prices reduce urgency for fuel reforms.

GLOBAL & REGIONAL EQUITIES

US equities ended the week on steady footing, with the S&P 500 rising 1.90% as investors looked past renewed trade tensions. Markets appear to be fatigued to the now-familiar cycle of tariff threats and subsequent reversals.

Much of the market's resilience came in spite of fresh trade frictions. Just 2 weeks after agreeing to suspend most tariffs for 90 days in Geneva, the fragile truce between the US and China is once again under strain. Both sides have accused each other of backtracking—Washington claiming Beijing has not removed non-tariff barriers as promised, and Beijing rejecting the charges and threatening to retaliate.

The US has since escalated export restrictions on Chinese tech firms and tightened scrutiny on Chinese students' visas, signalling a harder line ahead of the next tariff decision.

Markets now look to July 9, which is the end of the 90-day tariff deadline—with growing scepticism over whether any meaningful deal can be achieved in time. Notably, only the UK has concluded a trade agreement with the US. No other country or bloc has made comparable progress, and there is little indication this will change in the near-term.

President Trump had also announced plans to double tariffs on imported steel and aluminium to 50%, further stoking concerns over supply chains. Yet the equity market's reaction was muted, pointing to an environment where incremental trade headlines are losing its sting, at least for now.

On the macro front, inflation continues to moderate. The Fed's preferred gauge—the personal consumption expenditures (PCE) price index—rose just 0.1% in April, bringing the annual rate to 2.1%, slightly below expectations.

While this initially supported a rally in Treasuries, the release of the May FOMC meeting minutes tempered those gains. The minutes indicate that Fed officials remain concerned about the potential upside risks to inflation, particularly if tariffs escalate. For now, the Fed appears firmly in a wait-and-see mode. Rate cut expectations for June and July have been priced out, though the market is still leaning toward a 25-basis-point cut in September.

A US government bond auction last week showed that foreign demand for US Treasuries remain stable. Across a series of auctions covering the 5-year, 7-year, 1-month, and 3-month tenors, demand remained broadly healthy, including from foreign investors.

Consensus across the street show a preference for positioning in the belly of the curve—namely, the 3-, 5, and 7-year segments—where duration risk is more manageable and potential policy rate cuts by the Federal Reserve could offer modest upside. In contrast, the long end of the curve—10-, 20-, and 30-year maturities continues to see more caution, with upcoming auctions likely to shed further light on sentiment in those segments.

Asia

In Asia, the MSCI Asia ex-Japan index declined by 1.10% last week, weighed down by renewed tariff uncertainty and rising trade tensions between the US and China.

Within earnings season, a key highlight was NVIDIA's quarterly results. While the tech bellwether reported

GLOBAL & REGIONAL EQUITIES *(CONT')*

Asia

a decline in revenue from its China segment, reflecting tightening US export restrictions, it still managed to post quarter-on-quarter growth.

More importantly, demand from non-Chinese regions continues to gain momentum, offering a positive read-through for parts of the broader Asian technology supply chain.

In South Korea, focus turns to the upcoming presidential election. Both candidates have pledged support for capital market reforms, with the opposition Democratic Party candidate expected to adopt a more aggressive stance—particularly on minority shareholder rights and amendments to the Commercial Act.

From a portfolio standpoint, we maintain a slight overweight to Korea, with exposure concentrated in select AI-linked names such as Samsung and Hynix, alongside positions in industrials and consumer segment. Cash levels across our regional unit trust funds remain modest, in the range of 1%–5%.

UPDATES ON MALAYSIA

The local equity market ended the week on a softer note, with the FBM KLCI declining by 1.76%. Market sentiment was weighed down by a lacklustre corporate earnings season and ongoing political noise, although no material risks emerged from either front.

The highlight of the week was the conclusion of the May corporate results season. While this round carried fewer negative surprises than February's, the overall tone remained uninspiring. Approximately 50% to 60% of companies reported earnings in line with expectations, while 20% to 30% missed, and only 10% to 20% exceeded forecasts. From a sector perspective, banks reported decent results, but forward guidance was muted, reflecting the subdued macroeconomic outlook. The property and construction sectors delivered broadly stable results, benefiting from order book recognition and a normalisation in activity. In contrast, oil and gas and petrochem sectors missed expectations.

Looking ahead, earnings growth expectations for Malaysia continue to trend lower. At the end of 2024, consensus forecasts pointed to approximately 10% growth in 2025. This was revised to 6% following the February results season, and after the latest round of results in May, the figure is likely to be revised further down to 3%–4%.

On the political front, there were headlines surrounding ministers Tengku Datuk Seri Zafrul Abdul Aziz and Rafizi Ramli, but these developments are not expected to impact political stability. At most, the situation may result in a minor cabinet reshuffle, with no change to the government's policy direction or mandate.

In terms of fuel subsidies, the programme has now officially shifted from the Ministry of Economy to the Ministry of Finance. The revised subsidy plan is expected to be narrower in scope, potentially targeting expatriates and the top 5% income group, although details remain unclear. As previously noted, there is limited urgency for subsidy rationalisation at this stage. With oil prices averaging in the low USD 60s this year (compared to above USD 80 last year), the government is still expected to save around RM10 billion—reducing the immediate fiscal pressure to roll out reforms.

On portfolio action, cash levels range between 15% and 25%.

REGIONAL FIXED INCOME

Asian credit had a firm week overall, delivering a total return of +0.6%. Asian investment-grade (IG) spreads tightened slightly by 2 basis points (bps), while high-yield (HY) spreads widened marginally by 4 bps as of last Friday.

However, sentiment in the Asian high-yield space weakened on Monday, 2 June 2025, following an announcement from New World Development that it will defer coupon payments on four of its US dollar perpetual bonds due this month. While this does not constitute a default, it indicates mounting liquidity pressures. As a result, New World Development's bond curve dropped by 10 to 20 points in a single day.

We have no direct exposure to New World Development or other Hong Kong property names, but we do hold some exposure to CTF Services Limited, a sister company also owned by the Cheng family. Its curve was down approximately 3 points on the day. The news also had limited spillover effects on other Hong Kong corporates and banks, with Hong Kong IG property bonds widening by 2 to 10 bps, and Hong Kong bank papers widening by 5 to 15 bps.

In terms of portfolio activity, we participated in the following new issues last week:

- Westpac AUD Tier 2 bond at 5.8%;
- A senior AUD-denominated bond by Natwest at 4.9%;
- A CNH-denominated primary issue by PSA (Port of Singapore Authority), a Temasek-owned port operator in Singapore, priced at 2.7%. This bond was mainly added to our renminbi (RMB) and Singapore dollar (SGD) funds, offering a pickup of around 40 bps when hedged to SGD.

In the secondary market, we rotated out of older AUD Tier 2 bonds from issuers such as ANZ and Commonwealth Bank of Australia (CBA), which were issued last year and yielding 5.5%–5.6%, into newer issuances offering better yield pickup.

DOMESTIC FIXED INCOME

The Malaysian bond market remained well supported last week, with sentiment still modestly bullish based on current yield curve dynamics. The market appears to have largely priced in a potential 25 basis point (bps) cut to the Overnight Policy Rate (OPR). As of last Friday, the 3-year Malaysian Government Securities (MGS) closed at 3.15%, the 10-year at 3.53%, and the 30-year at 4.03%.

The key highlight in the government bond space was the auction of the new 20-year Government Investment Issue (GII). The total issuance size was RM5 billion, of which RM2 billion was privately placed by Bank Negara Malaysia (BNM). The public auction was well received, recording a strong bid-to-cover ratio of 3.3 times. The average successful yield came in at 3.77%, and the bond subsequently closed 2 bps lower in the secondary market at 3.75%.

On the corporate private debt securities (PDS) front, two AAA-rated deals were launched during the week.

The first was by Sarawak Capital Venture, a special purpose vehicle (SPV) of the Sarawak State Government, which raised a total of RM1.8 billion across three tranches. Pricing was broadly in line with comparables, with spreads ranging between 17 and 37 bps, depending on the tenor.

The second deal came from Paradigm Capital Berhad, a real estate investment trust (REIT) operator. They issued RM850 million, comprising RM735 million rated AAA and RM115 million rated AA2. Pricing

DOMESTIC FIXED INCOME *(CONT')*

came in slightly wider versus peers, with the AAA portion yielding around 60 bps and the AA2 tranche priced at 80 bps. We participated in both primary corporate issuances.

On the portfolio front, we continued to adopt a nimble strategy. Some of the recently acquired corporate bonds in the primary market have already been sold for profit to create room for upcoming opportunities. On the government bond side, we did not receive allocation for the 20-year GII, as the final yield came in below our target. However, we continue to hold positions in neighbouring tenors such as the 15-year MGS, 20-year MGS, and 30-year MGS, all of which benefited from the decline in yields.

Cash levels remain below 3%, and portfolio duration is maintained around 7 years.

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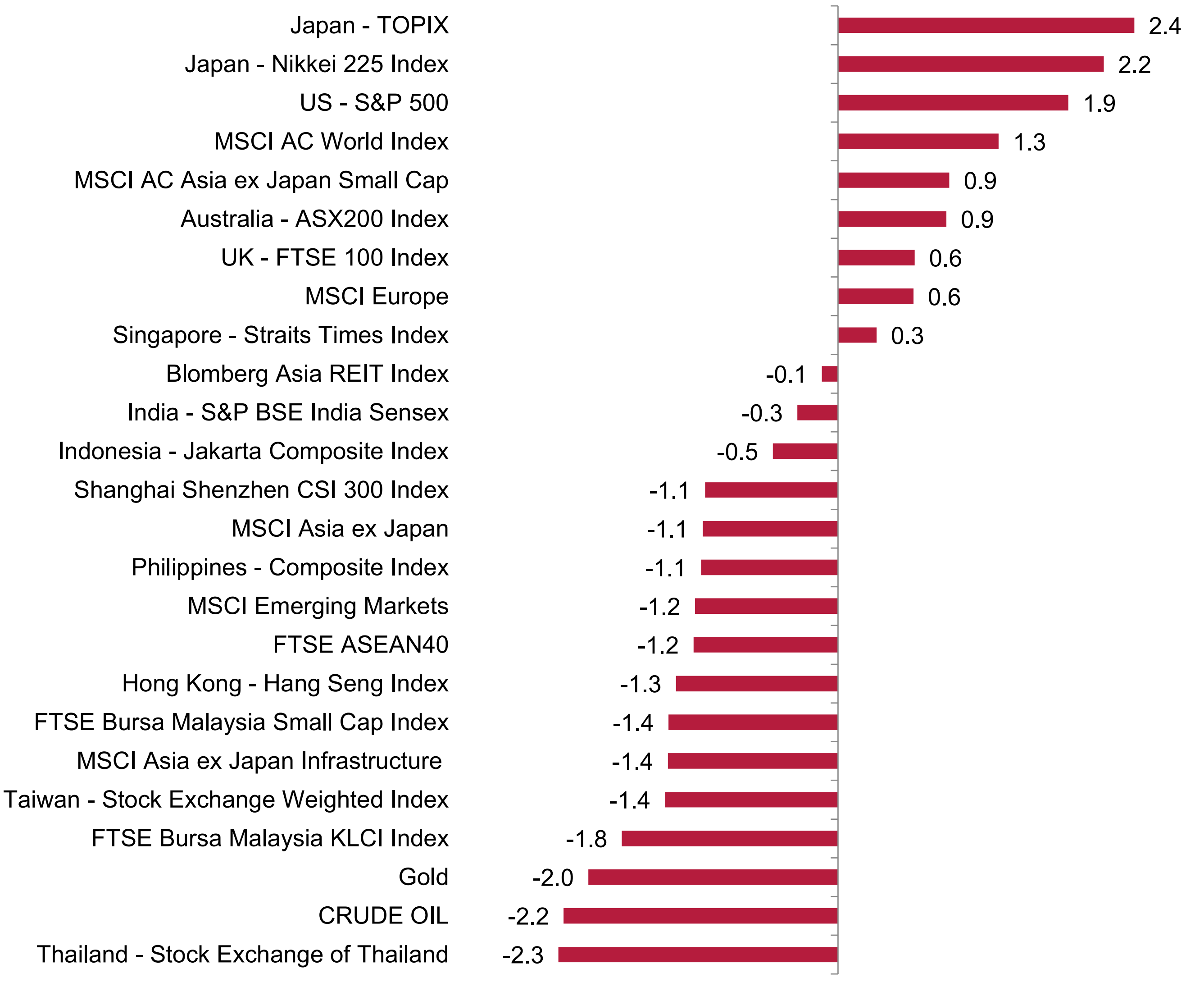
Index Performance | 26 – 30 May 2025



Index Chart: Bloomberg as at 30 May 2025. Quoted in local currency terms.